REVIEW OF THE REGULATION OF CREDIT AND STORE CARDS: GOVERNMENT RESPONSE TO CONSULTATION

Updated Equality Impact Assessment

MARCH 2010
Introduction

1. This Equality Impact Assessment updates the Equality Impact Assessment published in October last year and accompanies the Government response to the consultation on the regulation of credit and store cards, the summary of responses and the updated Economic Impact Assessment.

2. Following our commitment in the Consumer White Paper to review the regulation of the credit and store card market, the Government published a consultation on this issue on 27 October 2009. This consultation was set in the context of rising levels of consumer indebtedness, increasing consumer complaints about credit and store cards, and concerns about the complexity and fairness of their key features.

3. Overall, there were around 1.9 billion credit card transactions in 2009 (the comparable figure for store cards is approximately 52 million transactions), with a value of over £100 billion. After the US, the UK has the highest number of credit cards per head of population: 1.2 cards per adult. Credit card use in the UK continues to remain strong. Net lending for credit cards amounted to £2.3 billion in 2009, in contrast to £3.3 billion for other types of consumer credit. This shows how valuable credit cards have been to consumers in the current economic conditions. In contrast, the store card market is showing a decline in popularity in recent years. Whilst data on store cards is less readily available, latest figures indicate that lending fell by 13% in the past 12 months.
5. The majority of credit card customers use their credit cards responsibly and indeed, many consumers use their cards astutely to take the most advantage of the benefits they offer. In our consultation, our concern was in providing a fair deal to all consumers. Consumer research showed that consumers recognise that lenders are businesses and that they will need to profit from the provision of credit. They also recognise that credit and store cards offer a facility to consumers and that there will be a cost associated with accessing and using this facility.

6. However, the responses received to our consultation and additional research carried out during the consultation period also show that consumers expect the relationship between consumers and lenders to be fair and reasonable. In part, this means accessible and clear product information. Credit and store cards are complex products, and even the most financially astute may not be fully aware of the true cost of using their card or understand how they can make the best use of it. This becomes even more of an issue for more financially vulnerable consumers. All consumers will benefit from simpler and clearer information on their cards, and better opportunities to make decisions about their credit and store card use.

7. In their responses to the consultation, a number of individual consumers argued that it should not be the responsibility of Government or lenders to police consumer borrowing behaviour. Others, however, expressed concern that card companies are not taking sufficient responsibility for protecting their customers, particularly the most vulnerable. Our consultation set out our concerns about these more vulnerable consumers, who, whilst a minority, are more likely to struggle with unsustainable credit card debt. We believe that more can be done by lenders to help these more vulnerable consumers, many of whom may find it more difficult to resist the temptation of spending on a credit card. We want to ensure that these consumers have the ability and opportunity to choose a credit card product
that is right for them and that they are not, unwittingly or otherwise, put in a situation which causes them severe financial harm.

8. In our consultation document we identified four specific areas of credit and store cards where we thought a review of existing market practices was necessary. These were firstly, the requirement that repayments to a credit or store card are allocated to debts attracting the highest interest rates first; secondly, the level of minimum payments; thirdly, the issue of unsolicited credit limits; and finally, the ability of lenders to raise interest rates on existing debts. The consultation document also identified scope to improve the simplicity and transparency of credit and store cards more generally.

9. In considering these five areas, the Government’s overall objective is to secure a better deal for consumers, giving them improved control of their credit and store card borrowing, whilst also ensuring that any intervention is proportionate, transparent and targeted. We are conscious of the need to consider how reform which may favour one group of consumers might impact on other types of consumers. In particular, we are mindful of the potential impacts on the more vulnerable if access to credit is to be restricted.

10. In light of the responses received to our consultation and further evidence gathered during the consultation period, the Government has announced five new consumer rights which we believe give consumers a fairer deal and more control over the way in which they can choose and use their credit and store cards. A number of these consumer rights are targeted specifically at helping more financially vulnerable consumers. These rights are:

- **Right to repay:** consumers’ repayments will always be put against the highest rate debt first. For consumers opening new accounts the minimum payment will always cover at least interest, fees and
charges, plus 1% of the principal to encourage better repayment practice.

- **Right to control:** consumers will have the right to choose not to receive credit limit increases in future and the right to reduce their limit at any time; and consumers will have better automated payment options. Consumers will have access to these options online.

- **Right to reject:** consumers will be given more time to reject increases in their interest rate or their credit limit.

- **Right to information:** consumers at risk of financial difficulties will be given guidance on the consequences of paying back too little. Consumers will be given clear information on increases in their interest rate or their credit limit, including the right to reject.

- **Right to compare:** consumers will have an annual statement that allows for easy cost comparison with other providers.

The detail of these new consumer rights is set out in the Executive Summary of the Government response which can be found at www.bis.gov.uk/creditconsultation/response.

11. We believe that these new protections strike the right balance, protecting consumers from what they see as unfair and misleading practices and empowering them to take greater control of their borrowing, whilst at the same time minimising the risk of higher rates and increased red tape for the responsible majority of consumers who manage their cards well.

12. This Equality Impact Assessment updates the Equality Impact Assessment produced in conjunction with the consultation on the regulation of credit and store cards. It takes into account additional evidence obtained during the consultation period both from responses received to the consultation and also from additional research either commissioned or brought to our attention during the consultation period. It looks at the equality
impact of the Government proposal in each of the five areas covered by the consultation document, all of which now form part of the new consumer rights announced by the Government.

13. Equality Impact Assessments are an important mechanism for ensuring that we gather data to enable us to identify the likely positive and negative impacts that policy proposals may have on certain vulnerable groups and to estimate whether such impacts disproportionately affect such groups. The original Equality Impact Assessment and the consultation document were to sent to a number of organisations with an interest in equality and diversity issues including Age Concern, Help the Aged, the Equality and Human Rights Commission, Mind, Rethink and the Royal Association for Disability Rights (RADAR).

14. This updated Equality Impact Assessment is available electronically at www.bis.gov.uk/creditconsultation/response along with the Government response and associated documents. You may make copies of this Equality Impact Assessment without seeking permission. Printed copies of this impact assessment can be ordered from the Publications orderline, the contact details of which are available in the Annex of the Government response. It may also be possible to make other versions of this document available on request in Braille, other languages, large fonts and other formats. Please contact the Publications orderline for details.

Context

15. Debt is the number one advice issue in Citizen Advice Bureaux (CAB), accounting for one in three of all enquiries. A survey from the CAB in July 2008 found that more than half of their clients (58%) had no spare money to
pay their debts and that those who did have spare money to pay their debts would take an average 93 years to repay them in full.¹

16. Data from a 2006 Office of National Statistics (ONS) study shows that certain groups of consumers are more at risk of struggling with debt than others. In particular, this is true of younger people; tenants, particularly those in social housing; low income households and single parents.² A 2008 CAB survey further backs up these ONS statistics.³ This shows that the effects of debt are felt most strongly amongst some of the most vulnerable members of society. More than 20% of CAB debt clients were single parents, 12% came from ethnic minority backgrounds (compared to 7.9% of the UK population), 27% reported that they had a person with a disability or long term illness living in their households (compared to 18% of the UK population) and more than two thirds were renting their homes (compared with less than a third of the UK population). The 2008 CAB survey also showed that low income appears to be the most common cause of indebtedness identified by CAB clients whilst a significant number of people surveyed attributed their debt to the fact that they have taken on too many debts or have poor financial skills. Illness and disability was the third major reason for debt problems given by CAB clients.

17. There is also evidence linking problem debt to those people with mental disabilities. Recent research shows that debt is a much stronger risk factor for mental disorders than low income⁴ and a recent survey by Mind⁵ showed that over 90% of respondents said their debt or financial difficulties had made their mental health problem worse. Data from the ONS shows

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¹ www.citizensadvice.org.uk/a_life_in_debt_final.pdf
² ONS: The Demographics of Over-Indebtedness
³ www.citizensadvice.org.uk/a_life_in_debt_final.pdf It is worth noting that these results may be biased in favour of more vulnerable consumers who are most likely to use CAB services.
⁵ http://www.mind.org.uk/assets/0000/0102/In_the_red.pdf
that people with experience of mental distress often live on lower than average income: over 75% are reliant on welfare benefits.\cite{6}

18. We know that credit card holding is lower among low socio-economic groups (32% of adults in group E had a credit card in 2008, compared to 82% of adults in socio-economic groups A and B\cite{7}). Consumer research carried out by consumer research firm GFK NOP on the behalf of the UK Cards Association (UKCA) confirms this with 36% of socio-economic groups D and E owning a credit card compared to 75% in socio-economic groups A and B. Credit card ownership is also lower among low-income groups (38% of those with an annual income below £13,500 have a credit card, compared to 50% of those with an annual income above £25,000).\cite{8} Again, consumer research from GFK NOP confirms this with 45% of consumers not working owning a credit card compared to 71% of those who do work. Recent research from Oxera\cite{9} also showed that no age groups are excluded from the financial market in the UK and consumer research from GFK NOP confirmed that young people (18-24 years) were just as likely to hold credit cards as older people (+65) with the percentage ownership as 59% and 52% respectively. However, research carried out by consumer research firm TNS-BMRB for the Government showed that credit card ownership was actually higher amongst older people (40%) compared to those aged between 18-24 (19%).

19. We have some evidence about the use of credit and store cards by different types of consumers. Data from the UKCA shows that whilst 80% of those in socio-economic groups A and B repaid their credit card balance every month or most months, this fell to 56% for those in groups D and E. Consumer research carried out by GFK NOP for the UKCA during the

\begin{itemize}
\item \cite{6} ONS, 2002
\item \cite{7} National Readership Survey Social Grade Definitions. A = upper middle class, B = middle class, C1=lower middle class, C2 = skilled working class, D = working class, E = those at lowest level of subsistence.
\item \cite{8} UKCA publication ‘UK Plastic Cards 2009’.
\item \cite{9} The Use of Age Based Practices in Financial Services, September 2009
\end{itemize}
consultation period confirmed this with only 6% of socio-economic groups A and B always having a balance outstanding on at least one card compared to 11% for socio-economic groups D and E. In terms of age, those cardholders aged 25-34 were least likely to pay off their balance in full every or most months, with only 50% doing so last year. This was confirmed by research carried out by TNS-BMRB for the Government which showed that only 68% of those aged 18-24 paid off their credit balance in full every month compared to 88% of those aged over 65. Consumers in local authority housing were also less likely to repay off their balance in full (only 61% did so compared to 88% of homeowners according to TNS-BMRB). A report by Mind which surveyed people who had either experienced mental distress or had used a mental health services, showed that six out of ten owed money on their credit or store cards, and nearly half owed more than £2,500. Finally, research carried out by TNS-BMRB on behalf of the Government during the course of this consultation found that regular card users that had used a store card in the last six months were more likely than credit card users and the general population to be women. Store card users were also less likely than others to be working full time. Some of these consumers may not have the financial means to carry credit card debt, and could therefore be worsening their financial situation by using their credit and store cards.

20. Statistics show that lower income households tend to have relatively high levels of debt on these cards. Among clients of the Consumer Credit Counselling Service (CCCS), households with an income of less of than £10,000 a year had average credit card debt of nearly £8,000 and average store card debt of almost £1,400. Survey data also shows that low income consumers are more likely than the average consumer to use their credit and store cards to make ends meet or to consolidate their debts: both of which are unsustainable uses of credit and store cards in the long term. This was backed up anecdotally by many comments received on the BIS consultation.

10 http://www.mind.org.uk/assets/0000/0102/In_the_red.pdf
Furthermore of those consumers who sought debt advice from the CCCS in 2008, nine out of ten had an annual income of less than £30,000 showing that debt problems are most likely to affect those on average or below average income levels. ONS data from 2006 also shows that nearly a quarter of householders where the eldest member is under 24 are in arrears on at least one credit commitment or bill. This is more than three times the rate for the general population.

21. Research carried out for the Government by TNS-BMRB during the consultation period also confirmed that certain consumers are more at risk of struggling to manage their credit and store card debts than others. The research found that 1 in 20 respondents said that they had missed a payment on credit and store cards in the last 6 months and that those defined as being in financial difficulty were more likely to say that their repayments were somewhat of a burden or a heavy financial burden (59%). 37% of those making the minimum payment on one card every month were next most likely to find that their debt was a burden.

22. The increasing complexity of credit and store cards means that some consumers are unaware of the true cost of using their card or understand how they can make the best use of it. It is likely that some consumers may not be choosing the card which is most suitable for their financial needs and in some cases lenders are benefiting from consumers incurring unexpected costs as a result of the lack of transparency about how their card works.

23. A survey by the Office of Fair Trading in 2004 found that understanding of credit cards among cardholders was relatively low. This was particularly an issue for those consumers in lower socio-economic groups. They were more likely to say that they had a “limited understanding” of credit cards,

12 ONS: The Demographics of Over-Indebtedness
whilst those in higher socio-economic groups were most likely to say that they had a “very good understanding of credit cards”. The complexity of credit cards is not only an issue which crosses income barriers. The same survey also showed that only 1 in 5 older people (over 55) found credit card information easy to understand. This was backed up by a recent report for the Equality Commission for Northern Ireland, which found that the issue of credit and the consequent debt is a growing problem for older people, many of whom struggle with the unfamiliarity of credit cards. The difficulties older people have in understanding information about credit and store cards is key, given that projections show that by 2071, the number of adults over 65 could double to nearly 21.3m.

24. The difficulties associated with credit and store cards are compounded by low levels of financial capability in some cases, which can make it even harder for certain consumers to choose products that best suit their needs. In 2006 the Financial Services Authority identified low levels of financial capability amongst a significant part of the UK population, particularly young people. This is also a concern for those consumers where complexity of information will be particularly problematic, including for those with learning difficulties or for whom English is not the first language.

25. Increasing levels of consumer indebtedness and concerns about the complexity of credit and store cards affects all consumers. The evidence above shows that it is of particular concern for many vulnerable consumers including the young, older people, those on low incomes, single parents, and those with disabilities, learning difficulties and long term health conditions.

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14 http://www.equalityni.org/archive/pdf/OLDERPEOPLEFinancialservices(F).pdf
Equality Impact Assessment of the Proposals

26. The Department for Business, Innovation and Skills (BIS) is subject to the public sector duties for disability, race and gender equality under section 49A of the Disability Discrimination Act 1995, section 71 of the Race Relations Act 1976 and section 76A of the Sex Discrimination Act 1975 respectively. In addition we recognise the benefits of ensuring that all Government policies are formed so as to avoid as far as possible an adverse impact on any particular group. In anticipation of the Equality Bill which proposes to extend the duty to promote equality of opportunity to sexual orientation, religion or belief, age, gender reassignment and maternity and pregnancy, we aim to show, where possible, the same commitment to the new strands as for the existing ones. Throughout this document these groups are defined as “vulnerable consumers”.

27. This section takes a view on the equality impact of the Government policy in each of the five main areas covered by the consultation which now form part of the five new Consumer Rights announced by the Government in its response.

Allocation of payments

28. General industry practice is that when a consumer makes a payment against their credit or store card debt it is allocated to the cheapest debt first. However, many consumers do not understand that this is common practice, and may therefore not realise that balances accruing interest at a high rate will be paid off last. These consumers may end up paying a lot more interest over a longer period as a result. A 2008 study from the US shows that this lack of awareness on allocation of payments is particularly marked for those consumers with lower levels of personal financial knowledge and for those

16 http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf
on lower incomes. Furthermore, a recent survey from moneysupermarket.com showed that understanding of the allocation of payments was also particularly low for younger people. Less than a quarter of consumers under 20 thought that the payment was allocated to the cheapest debt first compared to 39% of consumers over the age of 70 and an average of 31% for all consumers. Research carried out by GfK NOP for the UKCA appeared to contradict this as it showed that understanding of payments allocation among 18-24 year olds was virtually the same as for those aged 25-34 and 35-44.

29. The allocation of payments from cheapest to most expensive debt first is a particular problem for consumers who regularly withdraw cash on their card, typically charged at 25% APR or more. This group (around a quarter of credit card users) is likely to include a significant number of vulnerable consumers, who may have limited choices of other borrowing vehicles and who are borrowing on their card to fund essential cash expenditure. According to TNS-BMRB research for THE GOVERNMENT, those in financial difficulties (57%) those that made minimum payments (42%) and those who had debt re-priced twice in the last year were more likely to have withdrawn cash than those that pay back in full. This research also found that 39% of people aged between 18-24 had withdrawn cash on their credit card compared to only 24% of those aged 45-54. The figures were also higher for those in local authority housing (39%) compared to those who owned their homes (22%) and for those who were black (38%) compared to those who were white (27%).

30. The consultation document set out how we proposed to change this state of affairs. In our Government response, we have announced that we

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17 What’s draining your wallet? The real cost of credit card advances’, Frank (2008)
18 Annual Percentage Rate of Charge
will reverse the allocation of payments to ensure that expensive debts are paid off more quickly.

31. *Our view of the equality impact of the decision to reverse the allocation of payments is that this is likely to benefit all consumers.* A full reversal of the allocation of payments so that these apply from the most expensive to the cheapest debt first puts the allocation of payments entirely in the consumers’ favour. It will reduce the amount of time it takes for all consumers to pay off their credit and store card debt and the levels of interest they have to pay during that time.

32. While we did consider whether there might be case for treating cash advances separately (thereby focusing the benefit on those more vulnerable consumers more likely to make cash advances), on the basis of the consultation evidence we believe that all consumers should benefit from a reformed system.

33. In particular, we did not want to exclude balance transfer customers from the benefits that will arise from a reversal in the allocation of payments. We were particularly concerned about 0% balance transfer users who were not receiving the discount they had expected when they signed up to a transfer deal. Money Advice Trust told us of clients who had transferred balances to 0% or low interest credit cards, only to find their plans to reduce their indebtedness go wrong because they did not understand how payments are allocated. This issue would be particularly acute for consumers with underlying disabilities, learning difficulties and long term health conditions, or for whom English is not the first language.

34. The consultation also explored whether improved transparency might lead to greater consumer understanding of the allocation of payments. However, the consultation evidence showed that further transparency
measures would not affect consumer behaviour and would therefore not do enough to aid consumers.

35. Finally, the UKCA proposed an alternative option, where payments in excess of the minimum payment were allocated to the most expensive debt first, with lenders allocating minimum payments according to individual business models. However, about 20% of consumers, including many at risk of financial difficulty, make only the minimum payment in any given month, and would not benefit from such a partial reallocation of payments. We believed that these more financially vulnerable consumers should also be able to benefit from a reversal in the allocation of payments.

**Minimum payments**

36. The minimum payment is the minimum amount that a cardholder must pay each month on their outstanding credit or store card balance. Argus data supplied by the UKCA found that overall, 20% of cardholders made the minimum payment in any given month between July 2007 and July 2009. The proportion paying off their credit card balance in full every month is around 73% in socio-economic groups A and B but falls to 63% in socio-economic groups D and E. In addition, there are significant differences according to age and ethnicity. Consumer research carried out by TNS-BMRB showed that 56% of consumers aged 18-24 made the minimum payment on their card every month compared to 16% of those aged over 65 and that 30% of white consumers make the minimum payment every month compared to 47% of black consumers and 62% of Asian consumers. This research further confirmed that higher risk customers were more likely to make the minimum payment compared with lower risk customers (35-40% compared with 10%). Consumer research carried out by GFK NOP for Argus also showed that 42% of consumers in socio-economic groups D and E held a card where they made just the minimum payment compared to 28% of consumers in socio-economic groups A and B.
37. Whilst the differences in minimum payments made by different types of consumers may be attributable to many factors (for example, the deterioration in the financial position of many households) it represents a potentially worrying trend. Some of these consumers will be using what should be a short term product for potentially long term borrowing needs. This was borne out by many comments received on the BIS consultation page which showed that some consumers had high levels of debt and that they could only afford to cover the minimum payment on their card(s). GfK NOP research commissioned on the behalf of the UKCA confirmed this anecdotal evidence as it found that of those who stated that they made only minimum payments on at least one of their cards, 56% noted that this was because they could not afford to pay more. This was even higher for those consumers in socio-economic groups D and E (76%), for females (64%) for younger people (75%) and older people (76%) and for those on incomes below £11,500 (100%). TNS-BMRB research found that overall, 5% of consumers stated that they had been unable to make a minimum payment in the last 5 years, although figures were higher for the following groups: minimum payers (10%), regular cash withdrawers (11%) and those in financial difficulty (16%). This same research also confirmed that certain types of consumers find it more difficult than others to make a minimum payment. 15% of consumers in local authority housing could only afford to make minimum payments compared to 2% of those who owned their homes.

38. A mandatory higher minimum payment was one of a number of options proposed in our consultation. In our Government response, we have announced that we will raise minimum payments on new accounts so that they cover interest + fees + charges + 1% of the principal of the card.
39. Our view of the equality impact of the decision to raise the minimum payment is that this is likely to benefit all consumers in the long term by promoting more responsible long term borrowing and reducing consumers’ exposure to high cost lending. Our decision to apply a small increase to minimum payments and to apply it only to new accounts is to mitigate the impact on more vulnerable consumers who would struggle to pay more than their current minimum payment.

40. In our analysis of the various options for action in the area of minimum payments, we did consider whether to apply an increase in minimum payments to all existing accounts. However, our decision not to do so was strongly guided by evidence and responses to the consultation showing the devastating consequence this could have on more vulnerable consumers, many of whom are struggling to meet existing minimum repayments. A significant increase in minimum payments to all accounts ran the risk of exposing a significant minority of more vulnerable consumers to default. Argus data shows that three quarters of the accounts with the highest risk currently pay less than 5% of their balance. This is supported by GfK NOP research; when asked whether they would still be able to make minimum payments if the rate were doubled, 10% of minimum payers surveyed said that they already incur difficulties in meeting minimum payments, and a further 51% identified that they either might or would definitely find it difficult to meet the increased minimum payment. Applying the increase in minimum payments only to new accounts will protect those most at risk from higher minimum payments as these consumers will not be affected unless they open a new credit card or transfer their existing balance onto a new card.

41. Another of the main options in our consultation was to improve information transparency in the area of minimum payments. As evidence has highlighted above, clear and concise information is particularly important for those consumers with low financial capability, for those in lower socio-
economic groups, or older people and for those consumers who may more generally struggle with information, such as those for whom English is not a first language and some consumers with mental disabilities and learning difficulties. \(^{19}\) We were particularly concerned that information on minimum payments and the implications of making the minimum payments should be clear and straightforward, given the greater likelihood of higher risk (and potentially more vulnerable) consumers making regular minimum payments. Whilst some of these consumers may have no choice but to make the minimum payment (indeed evidence shows that 56% pay the minimum because they cannot afford to pay more), it is possible that some consumers might be able to pay more if they had more / clearer information available to them about what it means to pay the minimum.

42. It is for this reason that in our response to the consultation we have set out a number of ways in which lenders will communicate better with some of their customers. Lenders have agreed that a communication will be sent to consumers who are using their card in a way which may be putting them at risk of financial difficulty or incurring high levels of interest on their debt. The details of this communication are yet to be determined and will be agreed by lenders working with consumer groups, many of whom, such as Citizens Advice and CSSB represent more vulnerable consumers. We anticipate that this communication will provide tailored illustrations specific to that consumer showing how their behaviour is costing them more money, what they can do to improve their situation, including details of independent sources of advice and support. Lenders and consumer groups will work to ensure that this communication is as clear and as easy to understand as possible.

43. The Government response to the consultation also sets out how lenders will make it easier for their customers to pay more than the minimum

\(^{19}\) http://www.fsa.gov.uk/pubs/other/fincap_baseline.pdf
payment by allowing all customers to pay any amount above the minimum using automated payments. This will benefit all customers, but most particularly those who are most likely to make automated payments, such as standing orders and direct debits. Evidence from TNS-BMRB commissioned on the behalf of the Government gives us some information on those consumers most likely to do this. It shows that young people aged between 18-24 are the most likely of all age groups to make payments by direct debit (35%) as are those of mixed ethnicity (67%). These customers, and others who might find it easier to make payments online, for example, those with physical disabilities, will particularly benefit from greater choice in the level of the payment they can make.

**Unsolicited credit limit increases**

44. It is common practice for credit and store card lenders to increase consumers’ credit limits without their active consent. Data from uSwitch found that 19% of credit card holders surveyed had their limit increased on an unsolicited basis in the previous year. Consumer research carried out by GfK NOP for the UKCA found that there was little difference in credit limit increases for different types of consumers, for example, 26% of consumers in socio-economic groups A and B reported credit limit increases in the last two years compared to 26% in socio-economic groups D and E. However, anecdotal evidence from Citizens Advice cited individual cases where clients on benefits or out of work had been given limit increases even where they were already heavily indebted and experiencing financial difficulties. This is qualified by Argus data commissioned by the UKCA which shows that the highest risk accounts were the least likely to receive a credit limit increase; only 0.87% accounts in that category received an increase and some of these may have been solicited rather than unsolicited.

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45. Research carried out during the consultation period shows that different types of consumers have varying levels of awareness and attitudes towards credit limit increases. For example, consumer research carried out by TNS-BMRB showed that only 37% of 18-24 year olds knew that a lender could vary a credit limit without asking their customers compared to 74% of 45-54 year olds. Only 51% of those in local authority housing knew this compared to 69% who owned their housing and only 48% of those of mixed ethnicity compared to 68% of white consumers. Consumer research carried out by GfK NOP further showed that attitudes to credit limit increases varied by different consumer types, with 43% of 18-24 year old happy to have a credit limit increase compared to only 9% of older people.

46. In considering the options for reform in the consultation document, we particularly wanted to take into account the interests of lower income consumers and those who are new to credit. These consumers often rely on being given low initial limits which are then increased as borrowers become more known to lenders. The consultation called for further evidence on the impact of options for intervention on all consumers including this particular group, including banning this practice altogether or requiring consumers to opt-in to credit limit increases, either in general at the outset of the agreement or to every specific increase.

47. In our response to the consultation, we decided against the option to ban unsolicited credit limit increases or to require consumers to opt-in to these increases. We were concerned that these two options would have particularly detrimental effects on vulnerable consumer groups, particularly those who are new to credit or have low credit ratings. Responses to the consultation showed that it seems likely that lenders would respond to a ban or an opt-in in two ways. Firstly, they may choose to offer higher credit limits
at the outset which could lead to higher levels of problem debt for those consumers who cannot manage their card properly. Secondly, there were indications that card companies may chose not to offer credit at all to low income consumers and consumers who have little or no credit record and these consumers may then be forced to use more expensive types of borrowing such as payday lending or home credit.

48. In our response we therefore set out a number of proposals which will improve consumers’ control over their credit limit increases. Consumers will have the right to choose not to receive credit limit increases in future and the right to reduce their limit at any time and to do this in a way which is easy to them, including online and through automated telephone systems. Importantly, and particularly for some more vulnerable consumers, this will mean card companies cannot talk consumers out of their decision or try to sell them another product. Card companies will observe a ban on limit increases for consumers at risk of financial difficulties. They will work with debt advice agencies to agree how they will identify those consumers at risk. In addition, new credit limit increase communication will be sent to consumers facing an increase in their credit limit at least 30 days before the change. The communication will explain in clear and simple language how their limit is changing and what they can do if they wish to reject the new limit.

49. Our view of the equality impact of the proposals on credit limit increases is that these will benefit all consumers, and that they will have a particular benefit to many of the more vulnerable consumers, some of whom might have been particularly negatively affected by some of the more interventionist options proposed in the consultation.

50. Consumers who are new to credit or have low credit ratings are currently able to take advantage of lenders’ “low and grow” strategy for high
risk groups of consumers which allows some consumers who might not otherwise have been able to obtain credit cards to do so. Many of the higher-risk consumers who are the recipients of the low initial limits and grow strategy are likely to be more vulnerable consumers who, for a number of reasons, may not have any credit record or a good credit record. Typically, these could be consumers who are on lower income, perhaps on benefits, out of work for illness or other causes, or recent migrants with no credit history in the UK. The responses to the consultation showed that the lenders’ low and grow policy would have been at risk with a ban or an opt-in to unsolicited limit increases. Our decision not to take forward these two options should help ensure that these consumers can access credit card lending rather than more unsuitable and potentially more harmful forms of borrowing.

51. In our consultation, we were concerned that the lack of consumer information and control over the timing and scale of limit increases, alongside low financial capability, particularly for more vulnerable consumers, and in some cases the difficulty of rejecting an increase, undermined consumers’ control over their borrowing. The measures we have set out will ensure that those consumers who have been identified as being at risk and more likely to be susceptible to experiencing financial difficulties will be prevented from receiving unsolicited limit increases thus reducing their exposure to additional unsustainable debt. In addition, better options for rejecting credit limit increases, in particular online and through automated telephone systems, should make it easier for many vulnerable consumers to reject their credit limit increases if they so choose. This will be particularly important for those consumers who were less happy to receive such limit increases, such as older people and who find it currently hard to reject credit limit increases. Research carried out by TNS-BMRB showed that only 60% of black consumers currently found it easy to reject their credit limit increases compared to 88% of white consumers. Finally, the new communication
setting out the details of a credit limit increase will benefit all consumers and it is particularly helpful that the language and format of this communication will be agreed jointly between lenders and consumer groups, many of whom, such as Citizens Advice and CSSB represent the interests of more vulnerable consumers.

**Re-pricing of existing debt**

52. The consultation document set out our concerns about the practice amongst credit and store card lenders to increase interest rates (“re-pricing”) without properly explaining why they are doing so. Despite recent moves by the industry to make re-pricing fairer and more transparent (through a Statement of Fair Principles), we expressed concerns that some consumers might be subjected to unjustifiable interest rate rises on existing debt and that risk-based re-pricing is still not sufficiently transparent.

53. In the consultation document we wanted to ensure that consumers with limited choices are not subjected to unfair interest rate changes, that consumers are given clear information about how and when their rates might change, and that this is a genuine two-way street: rates should go down as well as up. The consultation document set out a range of options in this area, including banning all interest rate changes on existing debts or placing restrictions on the circumstances in which lenders can carry out risk-based re-pricing.

54. In their responses to our consultation many card lenders pointed out that the option of banning interest rate increases on existing debt could lead to annual fees, higher interest rates for new customers, and riskier consumers not being given a credit card at all. The last two of these consequences would particularly impact some vulnerable consumer groups, such as the young, those on lower income or on benefits, or with long term illnesses. In consumer research, when consumers were made aware of the
possible consequences of a ban on re-pricing, only 26% of consumers would still support a ban if it led to higher interest rates in future and only 17% would support a ban if it led to annual fees.

55. Furthermore evidence obtained during the consultation showed that, in general, over the last two years, re-pricing decisions have been for relatively small amounts: the majority of interest rate increases range between 1-5%. There seemed to be no significant differences in the levels of interest rate changes applied to different types of consumers. We were also influenced by evidence from the US where a ban on the re-pricing of existing debt has been introduced. The ban only came into force in February 2010, but initial evidence suggests it has had a significant impact on American credit card users, who are seeing higher interest rates and reduced credit limits. The UKCA also quoted data on the impact of the reforms in the US, where there was a 180% increase in accounts facing an interest rate increase as firms rushed to put interest rates up before the ban came into force and the average increase was 6.1%.

56. In our response to the consultation, we decided against the option to ban interest rate re-pricing. We were particularly swayed by the consequences of such action in the US and the likelihood that such action in the UK could lead to higher interest rates for new customers, annual fees and some people finding it impossible to obtain a card at all. All of these potential consequences would be likely to affect vulnerable consumers, particularly the last of these.

57. The evidence from the consultation suggests that consumers often do not have clear information about increases in their interest rate. Consumer research carried out by GfK NOP on behalf of the UKCA found that only 57% of consumers in socio-economic groups D and E knew that their interest rate on their credit card could change compared to 73% in socio-economic groups
A and B. Only 63% of older people and 67% of younger people knew this and 
only around 68% of those with incomes under £13,500 compared to over 
around 80% for those with incomes over £35,000. This was confirmed by 
research commissioned by the Government and carried out by TNS-BMRB 
which showed that only 30% of those aged over 65, 38% of those in local 
authority housing and 37% of those consumers who thought their activities 
were limited by health or disability thought that the reasons for their interest 
rate changes had been adequately explained to them.

58. Consumer research also found that awareness of the right to reject an 
interest rate increase as set out in the Statement of Principles was very low. 
Consumer research carried out by GfK NOP found that only 46% of 
consumers in socio-economic groups D and E, only 41% of consumers over 
65, only 42% of those not working and only 40% of female consumers knew 
this. Indeed, consumer research by TNS-BMRB found less than half of 
consumers who had their interest rate increased felt that it was adequately 
explained. Perhaps more alarmingly, a third of respondents said they did not 
know whether their rate had changed in the last year. Qualitative research 
also revealed a low awareness of the practice of risk-based re-pricing and a 
low awareness of the existing right to reject the increase, even among those 
consumers who had their interest rate increased. Card companies 
themselves reported that take up of the right to reject varied from firm to 
firm, from 1% to 5%.

59. Our Government response to the consultation focuses on this need for 
better and clearer information on interest rate re-pricing. This is particularly 
key for higher risk customers, many of whom will be more vulnerable, who 
are most likely to be subjected to interest rate re-pricing. We have agreed 
with credit and store card companies that consumers will now have 60 days 
to tell their card company they want to reject an interest rate increase, close 
the account, and pay down the outstanding balance at the existing rate over a
reasonable period. This doubles the time consumers have to consider an interest rate increase and take action. In addition, consumers will be notified at least twice during the 60 days that they have the right to reject the interest rate increases and card companies will tell them how much their borrowing will cost at the higher rate so they are able to see the real impact of an interest rate increase when making their decision. Lenders have also committed that they will not increase interest rates at all for consumers at risk of financial difficulties. They will work with debt advice agencies to agree how they will identify those at risk.

58. The Government has also secured industry agreement to always send a separate interest rate increase communication to consumers facing an interest rate increase at least 30 days before the change. The communication will explain in clear and simple language how their rate is changing, that they have a right to reject the new interest rate within 60 days, and how they can exercise that right if they want to. Card companies have agreed that they will work with consumer groups and debt advice agencies to ensure that this communication is clear and easy to understand.

59. Our view of the equality impact of the action that will be taken in this area is that it will benefit all consumers, but particularly those higher risk consumers who are most at risk of re-pricing and who in the past have had little or no awareness of their right to reject an interest rate increase. The new provisions will also provide these customers with more time to pay down and close their account should they so choose.

60. Evidence from the consultation confirmed that many consumers do not understand the often technically complex re-pricing mechanisms credit and store card providers apply to existing debts, and many are not aware of their right to reject an interest rate increase if they are subject to one. Furthermore there was evidence that around half of companies did not send
a separate letter to notify the consumer, putting the information on their monthly statement instead and that some firms simply told consumers that their terms and conditions were changing or what the new rate would be without making clear that it was going up and what they could do about this. It is clear that this kind of information will leave consumers bewildered and confused. If this is true of the average consumer, it will be particularly true of more vulnerable consumers, many of whom have low financial capability. This problem of understanding is particularly distressing for those who experience it and who may struggle more with unexpected shocks (such as older people and those with disabilities).

61. The evidence from the consultation showed that in the main, interest rate increases were relatively small and infrequent and so were unlikely to impact the vast majority of consumers significantly. This is important given that data from the CCCS showed that consumers on low incomes, single parents, the young and older people are less able to easily absorb increases in repayments. Evidence from the US further showed the problems that might arise from a ban on re-pricing could actually lead to more difficulties for many vulnerable consumers.

Simplicity and transparency

62. The complexity of credit and store cards can lead consumers to make poor choices and to incur greater debts and charges; it also has a detrimental impact on levels of switching in the market. The CAB 2008 survey showed that more than 6% of clients felt that poor financial skills had contributed to their debt problems.

63. The consultation document examined whether, in addition to the options for increased transparency outlined in the four areas covered by the consultation, there should be additional measures to improve transparency.
The Government suggested three specific ideas in the consultation, namely providing consumers with an annual statement about their credit and store card usage, developing a benchmarking or labelling system for credit and store cards and designing a basic, cheap and accessible credit card that consumers could use with confidence.

64. As we have announced in the Government response to the consultation, we believe that there is merit in the idea of an annual statement for credit and store cards and we are pleased that industry has agreed to work with consumer groups to develop this and to consider its content and format. The annual statement will give consumers clear information about how much it has cost them to use their card over the year, including information on all interest and charges for the year.

65. Our Government response also makes clear that there are some clear attractions to labelling schemes and to a basic credit card. There are, however, a number of practical issues that need to be considered more fully before a decision can be taken on whether, and how to take these two suggestions forward. We are therefore pleased that the Retail Financial Services Forum, established by HM Treasury, has been tasked with developing policy options to make products simpler and easier for consumers to understand. This is likely to include proposals around simpler labelling and basic products.

66. Our view of the equality impact of the proposed action to improve the simplicity and transparency of credit and store card products is that these will benefit all consumers, but they will particularly benefit those consumers for whom understanding complex financial products is not always easy. We want to make it easier for consumers to compare credit and store cards, to better understand their purchase and borrowing behaviour and to be able to make a more informed decision on their use of credit and store cards.

67. Overall, there was wide acceptance amongst the respondents to the consultation that there is merit in improving information to consumers, but many cautioned against the risks of information overload and the fact that too much information can actually harm consumers. This is particularly true of those more vulnerable consumers who will struggle most with complex financial information, particularly older people, those with disabilities and those for whom English is not a first language. It is partly for this reason that we have not taken any firm action yet on the proposals for a labeling system and a basic credit card product and that we will be guided by the wider work of the Retail Financial Services Forum.

68. The responses to the consultation also showed us that any simplicity and transparency measures that are targeted directly at consumers need to be tested by consumers before they are rolled out and it is our expectation that the annual statement will be tested with consumers before it is developed. It is also useful that key consumer groups, many of whom represent the more financially vulnerable segments of consumers will be participating actively in the development of the statement.

69. The consultation document proposed that the annual statement should be electronic. When we wrote our initial Equality Impact Assessment, we acknowledged that there might be concerns about the accessibility of e-statements to all groups of consumers. Some groups of consumers, particularly perhaps older people and those with some physical disabilities, may find it difficult to engage with information on the computer. Others, particularly those on low incomes, may not be able to easily access internet facilities and it might not be appropriate for them to use free public internet services, such as those in libraries, given the sensitive financial information that will be contained in these statements. On the other hand, an e-statement is likely to be particularly attractive to the young, most of whom are very confident with the technology and whom we know are more
vulnerable to high debt and to a lack of financial understanding of products. We have thought carefully about how an annual statement should be provided, and in light of these initial concerns, we have decided that the annual statement should be available online where online facilities are available and where consumers have signed up to these. However, the annual statement will also be available in paper copy for those consumers who would prefer to receive a statement in this way.

**Conclusion**

70. The review of the credit and store cards market has as its fundamental objective the need to secure a better deal for consumers. The five new consumer rights we have announced will give consumers a fairer deal and more control over the way in which they can choose and use their credit and store cards. These new protections will protect consumers from what they see as unfair and misleading practices and empower them to take greater control of their borrowing. The actions taken here will particularly protect the more vulnerable consumers who are at most at risk of struggling with unsustainable debt.